

# A Profile of Housing in Massachusetts, 1997

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## Introduction

How does the Massachusetts housing industry contribute to the economic vitality of the commonwealth and its regions? What role should state government play in the development and maintenance of housing for its various populations? With the goal of spurring discussion and debate among the commonwealth's policy makers about these and other housing questions, the University of Massachusetts President's Office conducted this study for the Citizens' Housing and Planning Association.

Like so many things, housing is different things to different people and has varying impacts on the many segments of our society. While a young couple in Boston struggles to provide basic shelter for their family, a suburban homeowner enjoys the qualities and benefits of home as a primary investment vehicle, a tax deduction, and a place to entertain. An elderly man who is otherwise independent may require special assistance to buy his groceries or visit a doctor, while a young woman fleeing domestic violence is turned away from an overcrowded public shelter where she seeks safety for herself and her children. It is these and countless other conditions of the commonwealth's citizens that this research endeavors to examine.

In designing the study, we set out to analyze the multiple impacts of housing on individuals, families, and the economy of the commonwealth and its communities. The study's division into seven sections is recognition that housing is far more than a consideration of supply and demand. We looked at housing as an economic engine and job creator, as a supplier of a basic human need, as an alternative to nursing homes and other institutions, as an investment that often requires financial assistance from lenders, and as a system by which people's beliefs about fairness are tested.

One thing became quite clear during this process: there is a strong need to develop a centralized database of information that documents housing issues in Massachusetts as they evolve. This study represents a "first cut" at evaluating housing issues in the

commonwealth and aims to provide an objective description and analysis. We hope that it will inspire a series of reports on the state of housing in the commonwealth.

After evaluating the results of this study, the overall message we garnered was that, even with a vigorous state economy, poverty, discrimination, and homelessness continue to exist in Massachusetts. Regardless of one's view concerning these issues, one thing seems very clear: ultimately, they affect us all.

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## **Executive Summary**

This profile of housing in Massachusetts begins with an understanding of our population: the people who comprise it, and its historic and projected patterns of growth. It examines changing household types and numbers, the ability of different groups to secure adequate shelter — and the money to pay for it — the impact of home building on a local economy, and the importance of providing a range of housing choices to satisfy diverse needs. The population of each geographic region in the commonwealth has unique issues and characteristics. This study provides a portrait of those issues and the challenges that the state, and those who live here, face as we enter the next century.

### **The Inseparable Roles of Population, Production, Supply and Credit**

Massachusetts has a population in excess of 6.1 million people living in 351 cities and towns. Our citizens are housed across 8,757 square miles in 2.6 million housing units that represent the entire economic spectrum. While the growth of our population has remained below the national average and relatively constant since 1970, there has been a healthy percentage increase within this population in the number of single-person households, single-parent families, and non-family households.

Within the context of population changes are signs of a dynamic demographic evolution that will impact both the kind of housing we need in the future and the importance we place on housing policy issues.

- Massachusetts is a relatively “old” state with a large elderly population that is expected to increase even more as the baby boom generation reaches retirement years. As empty-nest and elderly populations grow in number, their housing needs will change dramatically.
- We are becoming more diverse racially and ethnically due to disparate birth rates and an in-migration of people from other countries.
- While we need to focus on where we are going, it is useful to look at where we have

been and how well both the type and levels of housing production have met the needs of our various housing consumer groups.

- Over the past sixty years, owner-occupied housing construction has outpaced rental production four to one.
- Since 1990, we have experienced slowed production of multi-family housing, along with the conversion of rentals to owner-occupied units, decreasing the rental supply and making affordable rental housing more scarce.
- A shortage of affordable rental housing could lead to serious overcrowding problems in some Massachusetts cities in the future.
- The Massachusetts homeownership rate has been climbing, fueled in part by an increasing number of minority homeowners.
- The growing number of single-family homes does not provide a remedy to the multi-family supply issue, because a large number of low-income and poor renters are unable to purchase housing.

#### Driving Forces in the Market: Affordability and Availability

Sales of owner-occupied housing statewide have soared in the 1990s, surpassing the highest level of turnover in the 1980s and rising over 100 percent in this decade alone. Contributing to this are low interest rates, which are integrally linked to production, price, and available supply. While increasing across the state, average housing prices remain a function of geography: western and central regions of the commonwealth provide the most house for the money, and the east and northeast are the least affordable. According to the Greater Boston Real Estate Board, the average price of a single-family home in the Boston Metropolitan area rose from \$216,114 in 1991 to \$270,376 in 1997, a 25.1 percent increase.

Though approximately 22 percent of the rental housing stock in Massachusetts is subsidized, rising prices have excluded many low- and moderate-income people from the housing market. Others are making great sacrifices to stay in it.

- Thirty-six percent of all renters are shelter poor, and more than half of renters of color and nearly 40 percent of elderly renters also fall into this category.
- Between 1993 and 1997, the number of evictions for non-payment of rent increased by 64 percent.
- In 1996, nearly 17 percent of all homeowners were shelter poor, with half of these households headed by women.

There has been a dramatic rise in the number of homeless people in Massachusetts.

- Family homelessness increased 100 percent between 1990 and 1997, from 5,000 to 10,000.
- Contributing to the population in need of emergency shelter is the large number of women and children escaping domestic violence.
- Although there has been an increase in the supply of state-funded beds for homeless individuals since 1990, the number of unaccompanied homeless individuals in 1997 increased by 70 percent.
- People threatened with homelessness, who have managed to secure housing, find their new rent burden to be far above any reasonable level that can assure sustainability.

#### Meeting the Needs of Special Populations

There is a need for a greater supply of housing for persons requiring supportive services, especially among women and children who are victims of domestic violence. Special-needs populations also include those with AIDS, the non-elderly disabled, persons with severe and persistent mental illness, individuals with mental retardation, families and individuals with substance abuse problems, homeless veterans, and the elderly suffering from Alzheimer's disease.

Linking appropriate supportive services to housing can mean the difference between community living and institutionalization. The supply of adaptive housing and special services falls far short of the current need.

- Over 75 percent of elderly renters meet the income eligibility limits for publicly aided or private subsidized housing.
- The growing number of elders aged 80+ has created a market for assisted living housing and special facilities for persons with Alzheimer's disease.
- Despite a dramatic increase in the number of persons served from 1990 to 1997, there remains a need for an additional 2,000+ beds in residential programs for Department of Mental Health eligible clients.
- Close to 3,000 individuals are on the waiting list for Department of Mental Retardation residential services.

Many Massachusetts citizens face discrimination, which negatively impacts their success in securing housing for which they are qualified.

- While the Department of Housing and Urban Development estimates that nationwide as many as 2 million attempts to obtain housing of choice are thwarted annually due to illegal discriminatory behavior, only 24,122 complaints of discrimination

were reported nationally in 1997.

- Housing discrimination remains largely unreported, because victims do not recognize the signs, they may not be aware of their recourse, or they may find the process too time consuming, painful, or disruptive to family life.
- The primary categories people allege in rental discrimination are race, color, national origin, familial status, and source of income.
- There is wide disparity in approval rates for home mortgages. In 1997, denial rates for African-American and Latino people were 53 percent and 38 percent respectively. The denial rate for Whites was 26 percent.
- Upper-income African-American and Latino mortgage applicants were denied mortgages at twice the rate of Whites in the same income bracket.

### The Economic Impact of New Housing Construction

There is little doubt that housing construction is an economic engine. Traditionally, the economic impact of new housing has been measured in two ways: how much property tax revenue it will produce, and the amount of its financial burden, in the form of school costs and other essential services, on the local community. We measured the hypothetical impact of the construction of 100 homes in fifteen communities throughout Massachusetts. In addition, we explored the importance of housing as a factor in business location decisions.

There are substantial benefits from the construction of housing in the form of income generation, revenue collection, and job creation. These benefits provide both initial impact and ongoing contributions to a local economic area.

- The initial and ongoing impact for housing development in Massachusetts's urban areas includes \$11 million in income generation, almost \$2 million in taxes and fees raised, and 225 jobs created.
- The initial and ongoing impact for housing development in Massachusetts's suburban areas includes over \$15 million in income generation, over \$2.5 million in taxes and fees raised, and 310 jobs created.
- The initial and ongoing impact for housing development in Massachusetts's rural areas includes over \$12 million in income generation, over \$2 million in taxes and fees raised, and almost 300 jobs created.

### Key Conclusions

1. The supply of affordable rental housing is diminishing due to demolitions, conversions of rentals to owner-occupied housing, and the low production of multi-

family housing units. This is having a strong adverse impact on low-income persons who are facing the low vacancy rates and higher rents that come with a healthy economy.

2. Homelessness is on the rise for both families and individuals. Some of this increase is directly related to those trying to escape domestic violence.
3. Homeownership is increasing, fueled in part by an increasing number of minority homeowners.
4. There is a growing demand for housing supported by services to meet the needs of special population groups.
5. While not well recognized, the housing industry itself is a major contributor to the economy of the commonwealth.

### The Bottom Line

When we talk about numbers of units and prices of homes, increases in construction and decreases in interest rates, we envision an industry characterized by bricks and steel, cash and credit. In this context, it is easy to forget that at the core of the entire housing industry are people. In short, a study of housing is a study of our citizenry and of what each of us calls home.

### **The Demographics of Housing Demand**

David Winsor and Meir Gross, with James Palma

Current population and other demographic data show that the demand for housing is experiencing a significant change in both nature and scope. Pressures will be placed on various aspects of the housing market as the population increases, ages, and undergoes ethnic and social change. In general, an increase in the need for smaller housing units is likely, as is a greater demand for elderly and renter housing.

Larger and larger numbers of commuters traveling excessive distances to work, particularly in the Boston metropolitan area, give strong evidence that people are being forced to absorb the cost of commuting along with their normal housing costs. This phenomenon suggests a need for an increase in the number of more affordable housing units in and around the Boston metropolitan area and other work centers.

Vacancy rates, both for owner-occupied and rental units, are lower in Massachusetts than across the country. This keeps demand — and prices — high. As the age and makeup of the state's citizenry change, however, the units that are in high demand today may be the vacant homes of tomorrow.

Trends in demographics, both overall and in specific geographic areas, are a predictor of future pressures on the Massachusetts housing market. Using census data, banking

studies, and housing industry information, we track these changes in order to ready the housing industry for the population shifts as they unfold before us.

## I. Trends in Population Growth, and Their Effect on Housing

Over the past 60 years, the rate of increase in the Massachusetts population has been significantly below that of the nation (see Figure 1). Between 1995 and 2025, the state's population is expected to grow slowly — from 6.1 to 6.9 million people — resulting in a drop from 13th to 14th in national population rankings.

While population is growing slowly in the state as a whole, certain areas are expected to grow considerably. As Figure 2 shows, the cities and towns predicted to have the highest growth rates from 1990 to 2010 are in the central part of the state, especially along the Rhode Island border and the South Shore. Little growth, and even some population loss, is forecast for the Boston Metro area and the western part of the state. Perhaps not surprisingly, this growth rate corresponds to findings in the third chapter of this study, which show an increase in housing supply in these areas. Uneven growth, concentrated in towns that have traditionally been smaller and farther from major population centers, will place stress on both the infrastructure and the available housing supply of those areas.

### Migration

One reason for the state's slow growth is the migration of Massachusetts citizens to other parts of the country. The U.S. Bureau of the Census predicts that 815,000 people will move from the commonwealth between 1995 and 2005, while immigration from other countries will bring 830,000 into the state. Growth in the Latino population is expected to show the greatest numerical increase, and the White, non-Latino population will drop by 5 percent.

### An aging population

Another trend that has a significant influence on housing need is the changing age of the population. The commonwealth currently has one of the nation's oldest populations, and numbers in the above-44 age groups will increase dramatically as the baby boom generation ages. The population of youths under 24 is expected to increase only slightly, from 2 million to 2.2 million (see Figure 3). The childbearing age groups (25 to 44) have not yet declined in total, but a drop is projected to take place within the next few years.

In 2025, 18.1 percent of the population is expected to be over 65, as compared with 14.2 percent today. This points to a heightened need for retirement complexes, as well as assisted living and nursing home care. The anticipated drop in citizens of childbearing age underscores the decline in a need for large homes.

## II. Increasing Household Numbers

The growth in household formations across the commonwealth has mirrored the growth

in population and is, again, significantly smaller than that of the nation as a whole. From 1980 to 1996, the United States increased its number of households by 23 percent, while the number of Massachusetts households grew only 14 percent. Since 1990, these increases have been 7 percent and 3 percent, respectively. The population of the country increased 7 percent, however, while that of the commonwealth increased only 1.3 percent. The fact that the rate of growth in new households has outpaced that in population shows that there are other forces at work.

### Single-person Households

Perhaps the most significant shift in household make-up is the increase in numbers of single-person dwellings. This explains much of the increase in household numbers overall. From 1940 to 1990, single-person households swelled from 7.2 to 25.8 percent of all households. Growth was greatest from 1950 to 1980 and has since shown signs of leveling off.

### Other Non-traditional Households

Another trend is the increase in non-traditional households, such as single-parent families and non-family households. Both have been on the rise throughout Massachusetts and across the nation. From 1940 to 1997, the number of female-headed, single-parent families increased from 3.4 million (11 percent) to 12.8 million (18 percent) of all family households. Interestingly, the percentage of single-parent, male-headed households is unchanged, at 5 percent. The steady increase in non-family and single-person households again suggests that smaller housing units may become increasingly necessary.

### III. Journey to Work: The Jobs-to-Homes Balance

Still another way of looking at housing demand is by examining the distance people travel to their workplaces. Workers who travel long distances may be doing so because they cannot locate or afford housing closer to their employment. In 1990, the last year for which data were available, 64 percent of all workers worked outside of their cities or towns of residence, compared to 58 percent in 1980. Twenty-eight percent of all Massachusetts employees worked outside of their counties of residence in 1990, compared to 24 percent in 1980.

The number of minutes people traveled to work went up between 1980 and 1990. The 1990 census revealed that 29,951 people in the state travel 90 or more minutes to work. This census category did not exist a decade before. This jobs-to-housing imbalance suggests an immediate need for affordable housing in metropolitan areas and other pockets of higher employment.

### IV. Vacancy Rates

Vacancy rates suggest trends in population and household formations. These can be used on a statewide level to estimate overall housing demand and on a city- or town-wide



level.

#### Massachusetts vs. the United States

The overall state vacancy rate for rental units, as estimated by the U.S. Census Bureau, has varied for the last 11 years, while the national rate has remained fairly constant. Rental vacancy rates were at their lowest point in 1987, at 3.6 percent. They reached a high in 1992, when almost 9 percent of all rental properties in Massachusetts were vacant. Since that time, rates have declined steadily and are currently estimated at approximately 5.2 percent of all properties, compared to the national average of 7.7 percent (see Figure 4).

In 1986, the owner-occupied-property vacancy rate fell to a low of 7/10 of one percent. Interestingly, the highest rate occurred only two years later, at 1.8 percent. Since then, the owner-occupied vacancy rate has been consistently lower than the national average, and is currently estimated to be at its lowest point in 11 years, at only 8/10 of one percent.

#### Massachusetts vs. Boston MA-NH MSA

For more localized data, the U.S. Census Bureau evaluated the 75 largest Metropolitan Statistical Areas in the nation. Data on the Boston MA-NH MSA, which encompasses most of eastern Massachusetts and part of southern New Hampshire, show that vacancy rates for this region have generally followed the trend of the commonwealth, but have been lower for most of the last 11 years (see Figure 5). Rental vacancy rates in the Boston MA-NH MSA did not rise much above the national average of 7 percent at any point in this time period, and are currently at 4 percent of all rental properties. Similar trends are seen in the housing sales market, where vacancy rates were consistently equal to or lower than the state average.

Data from the Rental Housing Association of Massachusetts for fall 1997 support these observations. In surveys of the association's membership, rental vacancy rates were found to be as low as 1.15 percent in the mid-128 area of the state, while rates in central and western Massachusetts were 4.35 percent and 6.04 percent, respectively.

Similarly, average reported rents in the mid-128 area were an astounding \$1,065 per month, compared to only \$640 per month in western Massachusetts. Although this survey represented only 45,863 market-rate units (a small portion of 915,600 renter-occupied units in the commonwealth), it does show that there is a much higher demand for housing in eastern areas of the state.

#### V. Ownership Rates by Age and Ethnicity

Different age and ethnic groups also have different homeownership rates. Although detailed age data are not available at the state level, nationwide data from 1982 through 1996 show a schism between householders under 55 and those 55 or older. All age groups under 55 showed a decrease in homeownership rates between 1982 and 1995,

with some groups rebounding in 1996. Homeowners aged 35 to 44 showed a steady decline in homeownership rates during this same period, from 70 percent in 1982 to 65 percent in 1996. The nationwide ownership rate for the 45 to 54 age group also showed a small decline from 1982 to 1995, but rebounded to 76 percent in 1996. While younger age groups were showing declines, homeowners aged 55 to 64 remained consistent at 80 percent, and the 65 and over age group showed a steady increase from 74 percent in 1982 to 79 percent in 1996. The stability of older homeowners might be explained in part by this group's smaller relative dependence on employment for income.

In Massachusetts, too, the trend of lower homeownership rates carries over to age groups. The 1980 and 1990 censuses showed that homeownership by people under 35 has lagged behind the nation and followed the same pattern of decline for those years, although the decline was not as severe. Similarly, homeownership rates for homeowners 65 or older have been significantly less than in the nation as a whole. In 1990, when the national ownership rate for this age group was over 75 percent, it was only 64 percent in Massachusetts. This suggests that lower Massachusetts homeownership rates cut across all age groups.

Both Black and Latino homeowners in Massachusetts show a much lower homeownership rate than they do across the nation (see Figure 6). Rates among Blacks increased nationwide from 34.5 percent in 1950 to 43.4 percent in 1990, but the increase in Massachusetts was only from 25.5 percent to 26.4 percent. The rate of Latino homeownership has shown a marked decrease. Over the same 40-year period, the national rate declined from 43.7 percent to 42.4 percent; the rate in Massachusetts declined from 25.3 percent to a very low 18.7 percent.

It should be noted that the overall population of Blacks and Latinos increased during this time period, and that the absolute number of Black and Latino homeowners also increased. While the decrease in the rate among Latinos could be linked to the large number of Latino immigrants settling in the commonwealth (as recent immigrants traditionally have much lower homeownership rates than do citizens), the same cannot be said for Blacks.

#### Owners vs. Renters

The data for homeownership rates can be used to infer demand for rental housing. According to the 1990 census, 68 percent of all minority people in the state rent housing, as opposed to 30 percent of non-Latino White citizens. With an increase in minority populations forecast for the next 27 years and a decrease in the White population also projected, it is likely that the need for rental housing will increase in the near future. The number of mortgages granted to minority populations have increased in recent years, however, suggesting that homeownership among minorities is on the rise.

#### VI. In Conclusion

Housing demand in Massachusetts is always evolving in response to changes in the

makeup of the commonwealth's population. Many factors, including age, ethnicity, employment, lifestyle, and family size, influence the market from generation to generation. The key to meeting the housing needs of the commonwealth's citizenry is being aware of the trends and adapting accordingly.

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## **Housing Production and Supply**

David Winsor and Meir Gross

The state's housing supply has been steadily increasing, and is presently estimated at over 2.6 million units. Recent trends have favored single-family construction; multi-family units, in structures of two or more units, account for only 12.1 percent of new housing construction.

The fact that housing production is dominated by single-family homes is directly linked to the rates of homeownership. Since 1900, the homeownership rate has nearly doubled. In fact, this study concluded that the proportion of owner-occupied housing units has increased faster than the overall rate of housing production. There is evidence that this has been made possible by the conversion of units from rental occupancy to owner occupancy. As many as 26,000 units may have been removed from the state's rental housing supply.

Overall trends point to a surge of single-family housing construction in towns west of Boston. This is a direct result of infrastructure enhancements that have improved these towns' accessibility, and therefore their economies and amenities.

The state's housing stock has increased by nearly 110 percent since 1940. It is currently estimated at approximately 2.6 million units. The largest growth has been in the owner-occupied sector, which has increased by 215 percent. Rental units, on the other hand, have increased by only 33 percent over the same time period.

### **I. Recent Growth in the**

#### **Housing Inventory**

Figure 1 indicates that trends in the state's housing inventory are changing. While the owner-occupied segment has continued to increase since 1990, there has been a decline in rental housing. This was determined by dividing the estimated growth of the housing supply into its owner- and renter-occupied components. Based on building permit data, the state's housing supply has increased by 127,421 units since 1990, bringing the total to

2.6 million units. The estimated size of the owner-occupied segment has increased faster than the overall rate of housing production. Possible explanations for this include the demolition of older urban rental units and the conversion of rental units to owner-occupied units.

## Regional Context

Massachusetts is the most populous of the New England states. In the last seven years, the commonwealth accounted for nearly 43 percent of New England's housing starts. This was twice as many new homes as were built in Connecticut, the second largest producer. The state's housing growth rate, however, was below the New England average. Figure 2 shows that the growth rates of the southern New England states were surpassed by those of their three neighbors to the north.

Over the last eight years, housing production in the state has averaged nearly 16,000 units per year. The largest increase occurred in 1994, when 18,115 units were constructed. Despite this active production, this pales in comparison to the construction boom of the mid-1980s. In that six-year period, over 147,000 building permits for single- and multi-family units were issued, expanding the housing stock by more than 15 percent.

## Single-family Unit Production

Of the 127,421 housing units added to the state's housing supply since 1990, the vast majority were single-family units. Between 1990 and the third quarter of 1997, 111,900 such units had been built, representing nearly 87 percent of all new housing construction. In the last three years alone, single-family home construction totaled 42,376 homes. Single-family unit construction peaked in 1994 with the addition of 16,533 homes.

## Multi-family Unit Production

New development of multi-family homes and complexes has declined dramatically since the 1980s. Between 1980 and 1990, multi-family units accounted for nearly 26 percent of new construction. Over the following seven years, this decreased to 12 percent. The current supply, 157,182 units, represents an increase of slightly less than 2 percent since 1990, while single-family units increased by 111,983, or 9 percent, in the same period.

## II. Occupancy Rates and

### Overcrowding

A principal indicator of housing conditions is the occupancy rate of the housing stock. The state's rate of owner-occupancy has nearly doubled in this century, with the only significant decline occurring during the 1930s. With ownership rates currently estimated to be 62.3 percent, the issue arises as to the ability of housing production to keep pace with the growing preference for owner-occupied housing.

While there is no way to precisely calculate the decline in rental occupancy, estimates suggest that it could be in the range of 20,000 to 26,000 units.

This reduction has led to an increase in crowding in urban areas. The Census Bureau defines units with more than 1.01 persons per room as being crowded and those with more than 1.51 persons per room as severely crowded. The 1940 census revealed that 11.7 percent of the state's housing was crowded and 2.7 percent was severely crowded. Though statewide the number of crowded units had declined (2.5 percent crowded, 0.8 percent severely crowded), overcrowding could well become a serious issue in urban areas. Between the competition for units by an expanding student population and the suspected decline in the overall number of rental units, crowding and cost have been identified as emerging concerns for the Boston rental market.

### III. Subsidized Housing Inventory

A significant proportion of the state's housing supply is currently classified as "assisted": costs are directly or indirectly subsidized by federal, state or local regulation. In 1997, the Department of Housing and Urban Development and the Massachusetts Department of Housing and Community Development (DHCD) reported that a total of 216,587 units, or 22 percent of the state's rental housing stock, had some form of federal or state subsidy. There are also 16,568 households benefiting from low-income housing tax credits, which can be combined with other forms of housing assistance. For this reason it is not possible to apply the total number of tax-credit beneficiaries to the subsidized inventory.

Public housing operated by state and local housing authorities accounts for approximately 16 percent of all assisted units. The Section 8 certificates and vouchers program represents nearly 30 percent of all assisted housing in the state (see Figure 3).

### IV. Geographic Patterns of Development

The pattern of residential growth throughout the state has been far from uniform. Certain communities, because of their accessibility, economy and amenities, have attracted new growth at rates that significantly exceed those of the state overall. Between 1980 and 1990, the housing supplies in 22 communities doubled in size, and 56 communities had residential growth rates exceeding 50 percent. Meanwhile, Holyoke lost 6 percent of its housing. Some of the fastest growing communities in the 1980s were located in the state's more rural areas.

To determine the level of local growth since the 1990 census required the use of a somewhat unconventional source of data. Development was measured by communities' annual parcel inventory, as supplied to the Department of Revenue. The figures include the number of assessors' parcels by general-use category. From 1992 through 1996, communities statewide added approximately 50,000 residential parcels, for an increase of 4 percent. Fifty-two communities increased their residential parcel inventories by over 10 percent, while 27 lost parcels through conversion to nonresidential uses. Figure 4 indicates that the greatest concentration of residential growth is now occurring in the I-

495 corridor.

## V. In Conclusion

For the past fifty years, the supply of housing in Massachusetts has been driven by economic cycles and transportation shifts that have transformed the state's rural landscape. Today the state's least populous communities are experiencing the greatest rate of residential growth. Determining how and where the state's supply of housing is changing will help us predict and plan economic and infrastructure development over the next quarter century.

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## **Housing and Credit Markets**

David Winsor and Meir Gross

The state's market for resale and new owner-occupied housing has been characterized by a resurgence in the value of homes and an increase in the volume of real estate transactions.

The market for rental housing in the state appears to be affected by, among other factors, the expanding market for owner-occupied homes and increasing competition for rental housing that is being fueled by demographic shifts.

Nationally, interest rates have been in a general decline since 1990, a fact that is echoed by the precipitous rise in home sales in Massachusetts during this time period. One outcome of this phenomenon is the drop in mortgage refinancing from 66 percent in 1992 to 48 percent in 1996. In the same period, mortgages for home purchases jumped from 28 percent to over 48 percent.

For anyone who thinks of the economy as a roller coaster, the past decade has surely been a thrill ride. Like so many other aspects of our lives, the cost and availability of housing closely follow the economic roller coaster as it turns, climbs, and dives. The late eighties saw housing prices level off with a slowing economy, and with the early nineties came rising numbers of foreclosures. The housing market recovered as the economy again grew strong, causing home sales and prices to skyrocket in certain areas of the state. Falling interest rates that once had homeowners refinancing are now spurring increased home sales.

## I. Housing Markets

Housing markets are divided into basic segments, according to ownership status and physical characteristics. The ownership status of the market differentiates between the sub-markets for owner-occupied and renter-occupied units. Physical characteristics: size, location, condition, etc., affect cost, use, and demand of available units.

### Home Ownership Rates

Despite annual fluctuations, the long-term rate of home ownership in Massachusetts and across the country has been increasing steadily. Between 1990 and 1997, the commonwealth experienced an ownership rate increase of nearly four percentage points (58.6 percent to 62.3 percent), while rates for the rest of New England either declined or remained constant. Compared to its neighbors, Massachusetts has one of the lowest home-ownership rates; only Rhode Island's is lower, at 58.7 percent. The increase in the rate of owner-occupancy has resulted in a resurgence in real estate values and the apparent conversion of rental units to owner-occupancy to meet the demand.

Residential sales volume. According to the National Association of Realtors, a total of 99,400 single-family homes, condos and co-ops were sold in Massachusetts during 1997. This represents an estimated 7.5 percent of all owner-occupied housing units in the state. Using this statistic as a measure of regional market dynamics, Massachusetts was found to be the second most active residential real estate market in New England; New Hampshire, with an 8.13 percent turnover, led the region.

The real estate boom of the late 1980s is apparent in Figure 1, with annual sales for 1988 reaching 76,500 units, the peak for that decade. The current market surpasses that of the 1980s in terms of annual sales, degree of change in sales volume, and increase in value. Since the most recent low point in 1990, sales have increased more than 104 percent.

The cost of homes. The cost of new and existing homes in Massachusetts was also found to vary significantly, depending on market segment and location. According to the Greater Boston Real Estate Board (GBREB), the average price of a single-family home sold during 1997 in the Greater Boston listing area was over \$270,376 (see Figure 2). Banker and Tradesman Real Estate Information Services, which covers a different geographic market area, reported that the average sale price of a single-family home that year was \$190,036. Such variances in housing cost data can be partially explained by the geographic scope of the data reported, the specific statistical method used, and the impact of local markets on the resale market as a whole./1

Statewide, the average cost of a single-family home from the Banker and Tradesman system ranged from a low of \$66,389 in North Adams to slightly less than \$700,000 in the town of Westborough. Forty-one communities had average single-family home prices in excess of \$250,000, and nine communities reported average sale prices over \$500,000.

Recent resale activity by market segment. Figure 3 presents the 1997 Banker and Tradesman sales data for the five primary real estate categories, which account for 80,093 transactions. Of these, 48,967 (56 percent) were single-family residences. The average

price of single-family residential sales was slightly over \$190,000. The next largest category reported was condominiums, with 20,110 units changing hands. Sales of two- and three-family residences totaled 10,984 transactions, roughly 13 percent of all residential market activity.

Relative affordability of the resale housing market. The affordability of homes in the resale market is a function of income, cost and interest rates. The National Association of Home Builders has developed an index of affordability based on the median sale price of homes by metropolitan area and the proportion of those that are affordable to buyers earning the median income for that area. The index includes a number of assumptions regarding cost, including mortgage interest rates and the proportion of income needed for housing-related expenses. The current measures of the index for Massachusetts indicate that communities in the western portion of the state are more affordable. The Boston metropolitan area is ranked 111th nationally in affordability: 68.2 percent of homes sold are (theoretically) affordable to families earning the median family income.

### Renter-Occupied Housing Market

The scope and extent of the market for renter-occupied housing is measured according to the change in inventory, vacancy and cost. The Rental Housing Association's (RHA) "Industry Survey: Tri-annual Report," published in January 1998, evaluated 66,683 of the state's estimated 915,600 rental units. Of the units surveyed, 45,863 (68.77 percent) were identified as market-rate units, while rent levels of the remaining 20,820 units (31.23 percent) were regulated in some way. The survey found that the statewide vacancy rate for rental units had increased slightly from the previous year. The rate reported for the fall of 1997 was 2.59 percent, compared with 2.36 percent for the fall of 1996. These figures are significantly lower than the annual vacancy rates reported by the U.S. census, which estimated an average 1997 rental vacancy for the state at 5.2 percent./2

According to the rental survey, average rents in the state had increased by slightly less than one percent between the fall of 1996 and the fall of 1997. The latest survey reported the statewide average rent as \$854. Of the ten regional markets, the highest average rental costs were reported for the Greater Boston and Merrimack Valley areas, at \$1,047 and \$1,065 per month, respectively. At the local level, the survey reported average rental costs for communities with 500 or more market-level units. The most expensive rents were found in the Beacon Hill/West End neighborhood of Boston (\$1,317 per month) and the Chestnut Hill area (\$1,389 per month). The lowest occurred in Springfield and Lowell, both reporting \$613, and Dorchester, at \$667. Dorchester was also the only rental market to report a decrease in average rent, with costs declining by 4.9 percent. In Boston, the Beacon Hill/West End market reported the largest increase in rental cost, at 13.1 percent. Of the suburban markets, Norwood showed the largest change in cost, with an increase of 12.3 percent.

### Changing Occupancy Status

The boundary between the rental and owner-occupied markets is not permanently fixed;



rental properties become owner-occupied, and vice versa. There is evidence that owner-occupancy rates, which have been increasing nationally and locally, may very well have surpassed the overall rate of housing production. The U.S. census estimates that, between 1990 and 1997, the state's housing stock increased by over 127,000 units, bringing the total housing supply to over 2.6 million units. Using these figures, the owner-occupied portion of the supply was calculated to be approximately 1.62 million units, an increase of over 153,000. This suggests that approximately 26,000 rental units were converted to owner-occupancy to compensate for the inventory shortfall.

## II. Credit Markets

The market for residential finance capital has a significant impact on the market for housing. Nationally, more than 64 percent of all housing is owner-occupied, and approximately 65 percent of these properties are mortgaged. Numbers in Massachusetts are similar, with over 68 percent of owner-occupied housing inventory encumbered by mortgages. Given this link, the two aspects of the credit market that are believed to have the greatest influence on the availability and affordability of housing are interest rates and the lending practices of banks and mortgage companies.

### Interest Rates

A recent study by the National Association of Home Builders concluded that national housing affordability is heavily influenced by mortgage interest rates. Specifically, for every one percentage point rise in interest rates, more than four million households are priced out of the market for a \$100,000 home. The local impact of interest rates and their relationship to the housing market is apparent in Figure 5. Since 1983, interest trends have had an inverse relationship with sales trends, supporting the contention that market activity can be directly affected by the cost of residential mortgage capital.

### Mortgage Lending

Since 1992 the access, availability, and geographic detail of Home Mortgage Disclosure Act (HMDA) data have allowed precise tracking of residential mortgage markets. The number of residential mortgage originations increased only slightly from 160,286 in 1992 to 163,369 in 1996.

A noticeable shift occurred during this period in the use of mortgage capital. In 1992, fewer than 28 percent of all mortgages were used for home purchases. By 1996, home purchase lending amounted to more than 48 percent of all residential mortgages in the state. It is evident that the shift in lending was driven by the demand to refinance existing mortgages, which in 1992 accounted for over 66 percent of all lending. By 1996, mortgage refinancing had declined to less than 43 percent of the overall market.

The disposition of mortgage applications, specifically loan denial rates, is an important indicator of mortgage lending. Between 1992 and 1996, the aggregate loan denial rate in Massachusetts remained fairly constant, increasing slightly from 12 percent of all

applications in 1992 to 13 percent in 1996. The denial rates for specific loan purposes have shown greater variability over the five-year period. Home purchase applications, the largest purpose group, experienced the greatest improvement, decreasing from 12 percent in 1992 to 9 percent in 1996. Loan denial rates in Massachusetts were significantly lower than the national rate, which increased from 15.8 percent to 19.3 percent over the same period.

The value of mortgage lending in the state changed significantly between 1992 and 1996, reflecting shifts that have been occurring in the residential credit market. Some of the changes are consistent with historic market dynamics. For example, mortgage refinancing and home purchase loans increased in value by 16 percent and 10.7 percent, respectively.

### III. In Conclusion

The vast majority of housing in Massachusetts is provided by the private sector and, as such, is directly influenced by the functions of the housing and credit markets. While recent conditions in these markets have been relatively stable, their volatility during the late 1980s and early 1990s remains a vivid reminder of their impact on the lives of the commonwealth's residents.

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1. The Banker and Tradesman database consists of residential sales records for 276 communities in Massachusetts. Of these, 211 communities reported data by individual property type. The GBREB statistics represent market activity relative to units sold in the Boston Metropolitan Area and the greater Boston listing area. Values also differ significantly when median sales data are used in conjunction with average sales data.

2. A possible explanation for the difference is the fact that participation in the RHA survey is comprised of members of the association who are owners and managers of rental properties in designated rental markets throughout the state. With slightly over 7 percent of the market represented by the survey, it is possible that the results are skewed by data that favor the more populous and competitive rental markets.

### **Housing Affordability**

Michael E. Stone, Donna Haig Friedman, Maggie Spade, and Emily Douglas with Karla Armenoff, Elaine Werby and Elizabeth Ward.

Housing affordability problems across the commonwealth worsened substantially during the sharp recession of the early 1990s. Yet at best, the much-celebrated economic recovery of more recent years has had a mixed impact: The number of homeowners has increased, but so has the number of homeowners paying more than they can afford for

housing.

Though foreclosures have declined significantly, they are still much higher than they were in the 1980s. In the rental market, Latinos and Blacks have seen especially large increases in their already serious affordability problems. In all populations, evictions for non-payment of rent have been rising. In addition, homelessness has doubled for families and nearly doubled for individuals since 1990.

Nearly 600,000 Massachusetts households - about a quarter of the state's population - are "shelter poor." The squeeze between their housing costs and their incomes leaves them unable to meet their non-housing needs at even a low level of adequacy.

#### I. Shelter Poverty in Massachusetts

The conventional standard of affordability uses a cutoff of 30 percent of income as the maximum amount a household can pay for housing without hardship. In the early 1980s, this standard replaced the traditional 25-percent-of-income rule of thumb that had been widely used since the Nineteenth Century. A more realistic, sliding scale called "shelter poverty" recognizes that neither larger nor lower-income households can realistically afford as much as 30 percent, or even 25 percent, of their income for housing without compromising their other needs, while smaller, higher-income households can afford more than 30 percent without hardship.<sup>1</sup>

The shelter poverty sliding scale arises from the recognition that housing costs are by far the biggest expense for most households, and the expense they usually pay for first from their after-tax income; non-housing expenditures are limited by how much income is left after paying for housing. This means that a household is "shelter poor" if it cannot meet its non-housing needs at some minimum level of adequacy. Since the non-housing expenses of small households are, on average, less than those of large households, smaller households can reasonably devote a higher percentage of income to housing than can larger households with the same income. Since low- and higher-income households of the same size and type would require about the same amount of money to meet their basic non-housing needs, households with lower incomes can afford to devote a smaller percentage of income for housing than otherwise similar, higher-income households can devote.

The shelter poverty scale uses a conservative minimum standard of adequacy for non-housing necessities, scaled for differences in household size and type, similar to the federal poverty standard. Unlike the federal poverty standard, it takes into account the actual cost of living in Massachusetts, plus federal and state taxes, on the amount of money households have available to spend for housing and other necessities. The shelter poverty standard is thus a sliding scale, which is more realistic than any fixed percentage of income.

For example, on the shelter poverty scale, a married couple with an income of \$25,000 can afford 38 percent of its income for housing if they have no children, 21 percent if

they have one child, and only 5 percent if they have two children. Couples with higher incomes can afford higher percentages for housing.

Strikingly, the housing affordability problem in Massachusetts is found to be less extensive when viewed through the shelter poverty lens than when using the conventional approach. Shelter poverty has the advantage of focusing attention on those residents of the commonwealth experiencing the most painful squeeze between their housing costs and their incomes.

### Renter Affordability Problems

In 1996, 343,000 renter households - over 36 percent of all renters in the state - were paying more than they could afford for housing on the shelter poverty standard. Figure 1 illustrates percentages of Massachusetts renters in various populations who experienced affordability problems that year. Nearly two-thirds of shelter-poor renter households are female-headed. Over a third are headed by a person of color, and about a fifth, by an elderly person.

In the early 1990s, the rate of shelter poverty rose sharply, and then leveled off as the economy improved. Between 1990 and 1996, the number of shelter-poor renters increased by 18 percent. The number of renters paying above 30 percent has increased much more slowly than has shelter poverty, climbing to 393,000 households (41 percent of all renters) in 1996.

By either measure, there is a large low-income renter population with severe affordability problems. The shelter poverty approach suggests a somewhat less extensive problem among renters than does the conventional standard, but one that is more serious among both poorer and larger households. Also, shelter poverty is growing at a faster rate and is more sensitive to rising rents and widening income inequality.

Affordability differences by race/ethnicity. Over 50 percent of all renters of color are shelter poor, compared with about 30 percent of all White renters. In 1996, more than 55,000 Latino renter households, close to 49,000 Black renters, and about 19,000 Asian-American renters were shelter poor. Latino renters have, by far, the highest rate of affordability problems and suffered the biggest increase in shelter poverty during the 1990s. For all racial groups except Latinos, the 30-percent-of-income standard suggests more households have affordability problems than is revealed by the shelter poverty approach.

More than 220,000 White renter households were shelter poor in 1996, making up nearly two-thirds of all shelter-poor renter households in the state. Like others, they experienced a sharp increase in affordability problems during the early part of the decade. Unlike renters of color, however, their rate of shelter poverty has fallen with improvement in the economy.

Affordability for female-headed households. Close to two-thirds of shelter-poor renter

households are headed by females, and 45 percent of all female-headed renter households are shelter-poor. About 217,000 female-headed renter households were shelter poor in 1996; almost 247,000 were paying more than 30 percent of their incomes for housing. Slightly over half of all renter households in Massachusetts are headed by women, but 63 percent of the households with affordability problems (on both the shelter-poverty and 30 percent scales) are female-headed. This indicates that households headed by women experience greater economic stress, on average, than married-couple and male-headed renter households.

In the early 1990s, the number of female-headed renter households who were shelter poor increased by 20 percent, but then changed very little through 1996. On the 30-percent standard, the number with affordability problems is greater than the number of shelter poor, but has risen more slowly and steadily since 1990.

Affordability for elderly households. Nearly 40 percent of all elderly renters are shelter poor. About 63,000 elderly renter households were shelter poor in 1996; the percentage of shelter poor has remained relatively steady since 1990. About 90,000 elderly renters were paying over 30 percent of their incomes for housing in 1996, a number that has risen slowly during the 1990s.

#### Homeowner Affordability Problems

In 1996, 243,000 homeowner households - nearly 17 percent of all homeowners - were shelter poor. Figure 2 indicates percentages of Massachusetts homeowners with affordability problems that year. Both the shelter poverty and the 30-percent-of-income scales are illustrated.

Half of shelter-poor homeowner households are female-headed, including about equal numbers of single-parent families and elderly women living alone. Most of the other half of shelter-poor homeowners are non-elderly, moderate-income (about \$20,000-\$40,000), married-couple families with children.

From 1990 to 1996, the number of shelter-poor homeowners increased by 46 percent. While just one out of eight homeowners was shelter poor in 1990, by 1996 this had increased to one out of six. In 1996, 418,000 homeowners paid over 30 percent of their incomes for housing. This was nearly 28 percent of all homeowners, a sharp increase from 1990.

Affordability differences by race/ethnicity. In 1996 about 16 percent of all White homeowners and almost 21 percent of all homeowners of color were shelter poor. People of color, comprising 4.5 percent of all homeowners in Massachusetts, have somewhat higher rates of affordability problems than do White homeowners. The differences are much smaller than are the racial/ethnic disparities among renters. Asian-American homeowners have the highest rates of affordability problems; Latino homeowners have the next highest rate of shelter poverty, followed by Blacks, with White homeowners having the lowest rates.

In the early 1990s, all groups saw substantial increases in shelter poverty; the rates of shelter poverty leveled off in the middle of the decade. On the 30-percent standard of affordability, all racial/ethnic groups of homeowners have experienced substantial increases in affordability problems throughout the 1990s. For every group, the rates of affordability problems on the conventional 30-percent standard consistently run 8 to 12 percentage points higher than shelter poverty rates.

Affordability for female-headed households. Half of all shelter-poor homeowner households are headed by females; in 1996, almost 123,000 (21 percent) of all female homeowners were shelter poor, up from 18.5 percent in 1990. Female-headed households account for about 40 percent of all homeowners but 50 percent of homeowners with affordability problems, reflecting their lower prevailing incomes. Over 205,000 are paying above 30 percent of their incomes for housing, which is nearly 35 percent of all female homeowners.

Affordability for elderly households. Almost a quarter of shelter-poor homeowners are elderly. About 16 percent of all elderly homeowners are shelter poor, as are nearly twice that number of elderly homeowners who live alone. In 1996, more than 57,000 elderly homeowner households were shelter poor. About two-thirds of elderly homeowners with affordability problems are living alone, and most of these are women.

Shelter poverty among elderly homeowners rose from about 51,000 in 1990 to about 57,000 in 1996. By contrast, more than 105,000 elderly homeowners paid over 30 percent of their incomes for housing in 1996. This discrepancy is due to the small size of most elderly households; shelter poverty is most severe among very poor seniors, while most middle-income elders are not shelter poor, even if they are paying somewhat over 30 percent of their income for housing.

## II. Evictions and Foreclosures

Most households with affordability problems continue to pay for their housing even if it means compromising other basic needs. Some households eventually reach the point, though, where they fall behind in their housing payments. If they are unable to catch up, they face the loss of their homes. For tenants, this normally occurs through "summary process" eviction, and for homeowners, through mortgage foreclosure. Trends in evictions and foreclosures in Massachusetts during the 1990s indicate extreme affordability distress for considerable numbers of households.

### Renter Evictions

Between 1993 and 1997, the number of evictions for non-payment of rent increased by 64 percent. More than 5 percent of renter households now face eviction each year. Figure 3 illustrates the numbers of Massachusetts renter households in five districts evicted for non-payment of rent between 1992 and 1997.

In fiscal year 1997, the five Massachusetts Housing Courts reported a total of over 24,000 non-payment "summary process" eviction cases. According to the chief clerk of the Boston Housing Court, approximately half of evictions are handled in housing courts and the remainder, in local district courts. This would suggest that between the housing courts and district courts, about 50,000 non-payment eviction cases are currently being processed per year. While on one hand, not all summary process cases ultimately result in eviction and not all rent arrearages are necessarily due to inability to pay, many tenants who are unable to pay rent move out in response to a landlord notice without any court action having been initiated. It may therefore be conservative to estimate from the court data that in fiscal year 1997 there were at least 50,000 non-payment evictions.

While the sharp increase in eviction cases at the Boston Housing Court after 1994 is widely attributed to the end of rent control, all of the other housing courts have also seen large increases in eviction cases, even though no communities in their jurisdictions had rent control. The rise in evictions across the state is thus a general indication of the consequences of large private-market rent increases in the absence of public rent and eviction standards, rather than a reflection of the end of rent control in Boston, Cambridge and Brookline.

### Mortgage Foreclosures

Figure 4 illustrates the numbers of mortgage arrearages and foreclosures in the state between 1979 and 1997. From 1979 through 1988, residential mortgage foreclosures in Massachusetts averaged about 0.2 percent per year. As the recession took hold at the end of the 1980s, foreclosures began to rise sharply, reaching a peak of nearly 2 percent in 1992. While foreclosures have fallen along with the unemployment rate, residential mortgage foreclosures are still four to five times what they were prior to the last recession. With approximately one million mortgaged households in Massachusetts,<sup>2</sup> these foreclosure rates imply that about 20,000 homeowners lost their homes to foreclosure each year in the early 1990s and about 10,000 annually in 1996 and 1997.

### III. Homelessness

The U.S. Department of Housing and Urban Development's definition of homelessness includes all persons who have "no fixed, regular, adequate night-time residence or are using a place not designed for or ordinarily used as a regular sleeping accommodation for human beings or an emergency shelter or institution providing a temporary residence." Using this definition, we derived our estimates for this report by counting the number of families and individuals who received any federally or state-funded shelter or transitional housing in FY90 and FY97. We added families who received shelter through private sources, homeless families and individuals who requested but did not receive shelter, and homeless individuals who were living on the streets. We did not include in our count any families or individuals who were living "doubled up" or who were homeless but did not make contact with the service system. Some of the persons reflected in these counts had special needs (e.g., domestic violence, mental illness, dual diagnosis, HIV/AIDS). Efforts state agencies are making to address their needs are discussed in the following chapter:

## Populations with Special Needs.

Approximately 10,000 families were homeless in 1997, an increase of over 100 percent from 1990. Close to 5,000 families received publicly funded shelter in 1990 and 1997.<sup>3</sup> Approximately 5,000 additional families were homeless in 1997, including more than 2,000 who were unable to obtain Department of Transitional Assistance (DTA) funded shelter.<sup>4</sup> There were more than 375 homeless families who received privately funded shelter,<sup>5</sup> and over 3,000 families who were turned away from battered women's shelters due to insufficient capacity.<sup>6</sup> Evidence suggests that in 1990 the number of homeless families turned away in these categories was negligible.

Approximately 22,000 unaccompanied individuals were homeless in 1997, an increase of about 70 percent from 1990. In 1990, the state funded 1,888 emergency shelter beds for individuals. By 1997, the publicly funded emergency shelter bed stock for homeless individuals had increased to 2,636. About 17 percent of individuals using emergency shelters are chronically homeless (in shelters for extended periods of time), while 83 percent are short-term users of shelter.<sup>7</sup>

Using the formula derived from Dennis Culhane's investigation of shelter turnover rates in New York City and Philadelphia, an estimated 8,000 individuals were served in emergency shelters in 1990, as compared with an estimated 11,000 individuals in 1997. Another 1,000 individuals with specialized needs received transitional housing in 1990, as compared with an estimated 4,800 individuals in 1997. In addition, in 1997 nearly 3,000 unaccompanied women were turned away from battered women's shelters due to insufficient capacity;<sup>8</sup> an estimated 2,000 individuals with mental illness or dual diagnosis (mental illness and substance abuse problems) and over 250 veterans were homeless and unable to obtain shelter, and another 1,300 individuals were living on the streets, a 67 percent decrease from 1990.<sup>9</sup>

While the current system for addressing homelessness offers a more diverse range of shelter and service options for families and individuals with special needs than did the system that was in place in 1990, it has become extremely complicated for them to navigate.

Currently, six human service state agencies administer shelter or homeless prevention programs. An infusion of federal McKinney funds has created shelter and transitional housing programs for homeless families and individuals with special needs. The Executive Office of Health and Human Services convenes a council made up of representatives from state agencies serving special-needs populations. So-called "entitlement communities" in the state are also engaged in extensive planning to create a coordinated community response to homelessness. At the same time, the commonwealth's stock of specialized shelters fails to meet the enormous need.

Homeless prevention service providers across the state served over 10,500 families who were in unstable housing or were in danger of losing their housing in 1997, an 18 percent increase over the previous year.<sup>10</sup>



An extensive statewide homeless prevention network exists for families who are in unstable housing situations or are in imminent danger of losing their homes. The increase in number of households requesting homeless prevention assistance is one indicator of the difficulty that many low-income households are experiencing in the tight rental market. One-third of the 10,500 families served by homeless prevention programs obtained alternative housing or were assisted to maintain their current residence, paying on average 77 percent of their monthly income for rent. One-third of the housing placements were subsidized.<sup>11</sup>

#### IV. In Conclusion

One out of every four households in Massachusetts is experiencing a severe housing affordability problem, ranging from homelessness to shelter poverty to eviction or foreclosure. Clearly, these are not just the problems of an unfortunate few left behind by pervasive prosperity. As the boom comes to an end and the economy turns down, many more will face a tightening squeeze between their incomes and housing costs. Policy-makers, opinion-makers and the public at large need to understand and address this critical issue facing the commonwealth.

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1. Michael E. Stone. *Shelter Poverty: New Ideas on Housing Affordability*. (Philadelphia: Temple University Press, 1993.)

2. According to the 1993 American Housing Survey for the Boston CMSA, 622,100 (67 percent) of 928,800 homeowner households had one or more mortgages on their homes. No comparable recent data are available for the state as a whole, but the two-thirds fraction has been assumed.

3. Data sources: Massachusetts Department of Transitional Assistance and Department of Social Services. The methodologies we used to extrapolate or to calculate our figures are available in the long version of the report and from the authors.

4. See Massachusetts Coalition for the Homeless and Homes for Families, "Blocking the Door to Progress," Authors (Boston, MA, February 1998). Results of this survey, conducted from November 15, 1997, to January 15, 1998, indicate that 142 homeless families were denied shelter. Extrapolating statewide and year-round for FY97, when the same eligibility restrictions were in place, implies that over 2,000 homeless families were unable to obtain DTA-funded emergency shelter ( $142 \times 6$  divided by  $.37$ ). This figure is very likely an underestimation in that the study was conducted during the winter holiday season (pre-Thanksgiving through post-New Year). During this time of year, if families have any other avenue for moving in with friends or relatives, it is unlikely that they would be turned away.

DSS does not have information on the numbers of unserved families fleeing violence who sought shelter in FY90 or families turned away from DTA shelters in 1990 or 1997. We made the assumption that the number of unserved homeless families would be negligible in 1990 for three reasons: the restrictions on eligibility for publicly funded family shelter were minimal; a range of emergency assistance benefits were in place to prevent families from losing their housing; and state-funded hotel and motel shelter was available when family shelters were at capacity.

5. The research team contacted each DTA-funded family shelter agency in the state to find out how many families they had sheltered in FY97 through the use of private funds.

6. Data source: Massachusetts Department of Social Services. This figure is a duplicated count. That is, families requesting shelter more than once or subsequently entering a shelter at a later date during the fiscal year were counted more than once. Although the figures in this report on women and families escaping violence are duplicated counts, they provide what is quite possibly an under-estimation of the numbers who are homeless, because not all women and children homeless as a result of escaping violence actually call a shelter.

7. Dennis P. Culhane, E.F., Dejowski, J. Ibanez, E. Needham, I., Macchia, "Public shelter admission rates in Philadelphia and New York City: The implications of turnover for sheltered population counts," *Housing Policy Debate*, 5 (1994): 107-151.

8. Data source: Massachusetts Department of Social Services

9. This estimate is based on a methodology developed by Christopher G. Hudson, "The homeless of Massachusetts: An analysis of 1990 U.S. Census S-Night Data," *New England Journal of Public Policy*, 9 (1993): 79-100.

10. Data Source: Massachusetts Department of Housing and Community Development

11. In contrast, over 63 percent of families who left a DTA-funded emergency shelter in 1997 to move into permanent housing obtained some type of housing subsidy, a decrease from the previous year of 12 percentage points.

## **Housing for Populations with Special Needs**

Elaine Werby and Karla Armenoff with Donna Haig Friedman, Maggie Spade and Michael Stone

While special needs populations may be grouped according to their particular needs, no group is homogeneous. Within each group are individuals with unique capabilities and requirements. Making appropriate housing available takes sufficient and flexible funding, which permits development of a variety of appropriate housing accommodations - both with and without supportive services. The state agencies responsible for these special populations have provided a housing resource for many individuals and families, but the gap between available, appropriate housing and the number of people in need continues to grow.

Populations with special needs include low-income elderly, persons who are mentally ill, those with cognitive impairments, individuals with HIV/AIDS, families and individuals with substance abuse problems, battered women, homeless veterans, and those at risk of homelessness. The majority of these groups are poor and, in large measure, rely on public support for income, social services, and housing. For some, housing with social services (often referred to as "supportive housing") is critical. While no one state agency has responsibility for meeting the housing demands of all special-needs populations, the Executive Office of Health and Human Services plays a critical role as the convener of an interagency council comprised of representatives from all of the state agencies that serve these populations.

### **I. Meeting the Housing Requirements of Special Needs Populations**

The gap between available, appropriate housing for these populations and the unmet need grows and becomes more critical as funding resources dwindle and housing costs rise. In addition, expiring use restrictions in more than 100 federally subsidized developments threaten to exacerbate the affordable housing crisis for people with special needs.<sup>1</sup>

#### **Housing the Low-income Elderly**

Approximately 75 percent of all elderly renter households in the state meet the income eligibility limits for publicly aided or private, subsidized housing.<sup>2</sup> About 60,000 elderly households currently live in public housing, the largest source of assisted affordable housing for the elderly; another 20,000 live in private, subsidized housing, either in developments designed exclusively for the elderly or in family developments. Nearly 30,000 more elderly renters are eligible for publicly aided and private, subsidized housing.

Despite an increase of approximately 2,500 units of new elderly housing in the last ten years, and despite legislative correctives, waiting lists for state and federal elderly public housing in 1996-97 numbered approximately 18,000.<sup>3</sup> Vacancy rates are extremely low in most developments, though some public housing has experienced high vacancy rates in

recent years as a result of competition from private elderly housing. The latter are generally newer and are viewed by many as more desirable.

Waiting lists for private, subsidized developments are similar to those for public housing in length of time; a two-year or longer wait is not uncommon, though this varies depending on location, amenities and size of unit requested.

Legislative changes affect availability. Legislative action, both state and federal, has had a substantial impact on available, affordable housing for both elderly households and non-elderly disabled persons. Until 1991, state and federal developments, many of the federal Section 202 developments, and other programs designed for the elderly also served non-elderly people with disabilities. Tensions between these two populations led to changes in both state and federal programs.

In 1992 the federal 202 program, which funded housing for the elderly and for people with disabilities, was changed to focus exclusively on housing for the elderly, requiring at least one member of the household to be 62 years of age or older. Further federal legislation in 1992 allowed local housing authorities to designate all or parts of federally aided public buildings exclusively for the elderly, and within a few years, four local housing authorities took this action. In 1995, state legislation capped the non-elderly population in public housing elderly developments at 13.5 percent, reserving 86.5 percent for the elderly. In addition, the age eligibility for this elderly housing stock was lowered to 60 years of age, thereby creating a larger pool of potential applicants.

Currently the demand for assisted living housing is being met primarily by the private market, and is thereby largely inaccessible to the low-income population. However, in an attempt to address the need of this income group, the combination of an enhanced SSI (Supplementary Security Income) payment and Medicaid funding from the Group Adult Foster Care program has made it possible for 250 to 300 low-income elders to reside in private assisted living developments.<sup>4</sup> This effort meets the needs of only a fraction of those who could benefit from this type of housing.

The need for supportive services grows. As elders "age in place," public and private resources do not keep pace with the increasing need for supportive services. Some elders need assistance with housekeeping, getting to community activities, taking medications, grocery shopping, and even feeding themselves. While some developments have special HUD funding for supportive services, housing managers often have to rely on community resources for these services. Massachusetts home care corporations (now called Aging Services Access Points), through contracts with community agencies, provide home care, housekeeping assistance, and transportation for income-eligible elders in many elderly housing developments.

### Non-elderly Disabled Persons

Ten percent of new, federally assisted housing units are designed for mobility-impaired persons. Many of the currently available units are located in housing intended for the

elderly. Almost 2,000 of these are financed through the Massachusetts Housing Finance Agency. Developments without accessible units are slowly being retrofitted as funds become available.

As indicated above, state and federal legislative changes have impacted the availability of housing for non-elderly disabled persons, including those with physical, cognitive and/or emotional limitations. With the 13.5 percent cap, public housing designated primarily for the elderly is now a limited resource for the non-elderly population. State policy established that non-elderly disabled persons, waiting for or residing in state-aided elderly housing, may be eligible under the Alternative Housing Voucher Program for subsidy vouchers. These vouchers can be used for transitional housing in the private market while permanent housing is being sought. Despite this effort, applications from persons under 60 years of age for state public housing for the elderly climbed from approximately 5,500 in 1995 to almost 7,000 in 1997.<sup>5</sup>

#### Persons with Severe and Persistent Mental Illness

In 1997, the Department of Mental Health provided residential services to 6,000 mentally ill clients in non-institutional settings, 127 percent more than the number served in 1990. However, over 2,000 additional beds in residential programs and affordable apartments with and without services are needed statewide for DMH-eligible clients.<sup>6</sup>

The Department of Mental Health estimates that most of its 22,000 clients are impoverished, with a median monthly income below \$600.<sup>7</sup> Therefore, financial assistance is critical to help them secure housing and needed support services. The Department of Mental Health does not develop or own housing units; rather, it collaborates with a variety of public and private agencies, developers, advocates and organizations to find new housing resources.

DMH also distributes close to 800 housing subsidies to low-income clients through its Rental Assistance Program. In addition, department clients obtain federal subsidies administered by the Department of Housing and Community Development, local housing authorities, community development corporations, and regional non-profit housing organizations. Still, DMH projects that approximately 2,300 additional beds in community-based residential programs and affordable apartments with and without services are needed statewide for eligible clients.

#### Individuals with Mental Retardation

As of January 1998, there were 6,848 community-based residence units with supportive services for more than 10,000 consumers of the state's Department of Mental Retardation.<sup>8</sup> Like the Department of Mental Health, DMR does not own housing but rather works with "housing partners" to develop community-based housing. It also aggressively promotes opportunities for consumers, currently institutionalized, to move to new community settings. DMR estimates that 80 percent of its consumers have incomes below the poverty line; financial assistance is critical to help them secure

housing and needed support services. Over time, distribution of state funding has shifted more resources for community-based housing than for institutional support.

Despite the numbers currently housed in Department of Mental Retardation residential programs, the waiting list for residential services has increased by 500 percent since 1992. In January 1998, close to 3,000 individuals were on the waiting list for DMR residential services.<sup>9</sup> Rapid expansion of the list is due to the growing numbers of individuals whose caregivers 60 years of age or older are increasingly unable to provide care. There has also been an influx of individuals turning 22 years of age and moving into the adult mental retardation system. Approximately 450 DMR consumers turn 22 every year, and unless new housing resources are available for them, they are added to the growing waiting list.

A 1997 Brandeis University report highlighted the years-long wait for DMR residential services and its impact on families. According to the report, a quarter of the caregivers have had family members on the waiting list for more than 10 years, and another 20 percent, for 6 to 10 years, leading some to characterize the situation as a crisis.<sup>10</sup>

#### Families and Individuals with Substance Abuse Problems

As of January 1998, the commonwealth had 2,475 beds in permanent and transitional housing for individuals and families in recovery from substance abuse.<sup>11</sup> Though the state has developed a new stock of residential treatment programs for these individuals and families since 1990, approximately 8,000 individuals and families dealing with substance abuse are still in need of housing with services.<sup>12</sup>

The Bureau of Substance Abuse Services in the Department of Public Health operates three types of residential programs: 20 supportive housing programs ("three-quarter-way" houses); 68 residential treatment programs or group homes ("half-way" houses); and nine family shelters. These programs, evolved over the last 10 years, are developed with funding from state and federal programs. The bureau funds case management and treatment services in these residential programs.

#### Individuals with HIV/AIDS

In 1997, approximately 850 individuals diagnosed with HIV/AIDS were receiving non-institutional housing with support services in Massachusetts.<sup>13</sup> An additional 2,000 to 3,000 were still in need of housing and services.<sup>14</sup> As of January 1998, 51 residential programs with 1,071 units were operating in the commonwealth, with all but nine receiving at least partial funding from the Department of Public Health. Case management, substance abuse services and other supports appropriate to residents' preferences and stages of illness are provided in these supported housing programs. Many of these are targeted to homeless people with HIV/AIDS, while others serve those at risk of being homeless.

New treatment modalities for HIV/AIDS have prolonged life expectancies and changed housing needs from temporary to longer-term tenancy. The increased length of stay has exacerbated the affordable housing shortage for this population.

### Victims of Domestic Violence

The commonwealth's very limited stock of transitional and permanent housing for women and children escaping domestic violence constitutes a crisis situation. In 1997, there were approximately 17,000 requests by women and children escaping domestic violence and seeking permanent or transitional housing.<sup>15</sup> As of January 1998, the housing stock for this population consisted only of 121 transitional living beds in congregate settings with supportive services; 39 transitional living apartments with supportive services; and a Safe Recovery Program, serving up to 10 families at a given time.

Although service providers, funded through the Department of Social Services (DSS) and the Department of Housing and Community Development, offer quality, innovative services for battered women and their children, funding levels have not kept pace with the housing needs of these individuals and families. DSS-funded programs received almost 91,000 hotline calls in FY96 alone.<sup>16</sup>

"Where Do I Go from Here?," an October 1995 survey report on the housing needs of battered women in the North Shore region, draws a picture of unmet housing need.<sup>17</sup> "The survey showed that a combination of violence and poverty is threatening families and pushing women to the brink of becoming homeless. A lack of housing alternatives kept 82 percent of surveyed battered women with children in abusive situations."<sup>18</sup>

### Homeless Veterans and Those at Risk of Homelessness

Though the stock of housing for at-risk or homeless veterans has increased since 1990, the Massachusetts Department of Veterans' Services estimates that there are approximately 2,500 homeless veterans in Massachusetts.<sup>19</sup> In 1997, the commonwealth's stock of transitional and permanent housing for homeless veterans included 363 rooms or beds in transitional housing programs and 182 units or rooms of permanent housing. In 1990, only two transitional or permanent housing programs existed in the commonwealth: the Veterans Benefits Clearinghouse, Inc., administered 18 single-room occupancy (SRO) units, and Transition House operated 27 SROs.<sup>20</sup>

Many homeless veterans are unemployed or under-employed and often depend on shelter living and intensive counseling to deal with the impacts of service-related problems. While this population often does not connect with transitional housing and service agencies, many have been successfully helped by other veterans. The Department of Veterans' Services neither develops housing nor provides direct services. Rather, it supports non-profit veterans' organizations to provide services and to develop and operate housing for homeless veterans.

## II. In Conclusion

Attempting to meet the housing requirements of populations with special needs has tapped both public and private resources and relied heavily on the commitment, creativity, cooperation and collaboration of state agencies, advocacy organizations and coalitions, and community nonprofit agencies.

Further discussion of homeless individuals and families with special needs is included in the Affordability section of this report.

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### **Housing Discrimination**

Ellen Pader and David Winsor with James Palma

Estimates of actual numbers of housing discrimination cases are far greater than the number of documented occurrences. Some potential renters and homeowners do not realize they have been discriminated against, or do not know that recourse is possible. Even those who are aware of their options often choose not to pursue legal remedies. People who know their rights, or that the costs of litigation might be covered by a government agency or private organization, may choose not to pursue a claim because the process can be time-consuming, disruptive to family life and emotionally draining; legal remediation is not always a practical avenue.

According to nationwide estimates by the U.S. Department of Housing and Urban Development (HUD), as many as two million attempts to obtain housing are unsuccessful every year because of illegal discrimination by property owners, property managers, lenders and insurers. Yet, the National Fair Housing Alliance (NFHA) compiled a list of only 24,122 reported discrimination complaints nationally in 1997.<sup>1</sup> Assuming the accuracy of HUD's estimates, the vast majority of complaints are never brought to light. This disparity argues for the need to understand and measure the role of discrimination in housing denials to people based on factors such as race, ethnicity, sex, religion, disability, source of income or the presence of children in their households when economic status had no bearing on an ability to pay.

## I. Defining and Addressing the Problem

In 1968, the federal government passed the Fair Housing Act, making it illegal to deny housing to potential renters or homeowners based on their race, color, religion or national origin; in 1988 familial status and handicap were added to the list of protected categories. In Massachusetts, fair housing laws include all federal categories, plus marital status, sexual orientation, age, veteran status and source of income. Those seeking to purchase homes acquired more specific protection in 1975, with the Home Mortgage Disclosure Act. This mandated that lenders disclose their actions on individual loan applications, including the race, ethnicity and income of applicants, as well as whether the applicant was approved for a loan. Then, with the passage of the Community Reinvestment Act in 1977, the government made a commitment to reverse the trend of lending inequities that had been severely limiting access to mortgage capital by racial and ethnic minorities and low-income residents.

Despite these measures, discrimination continues throughout the state and across the nation. This is apparent even from the minimal discrimination data available. Unfortunately, when gathering information about housing discrimination one cannot review records in a city hall or analyze the census to compile statistics. Discrimination in the rental market is exposed primarily by its victims, and the majority of cases go unreported. Gathering accurate data is made more difficult when one considers the subtleties of discrimination: a property management company with an explicit nondiscriminatory policy might have individual employees whose behaviors prevent clients from moving into to the homes or neighborhoods of their choice, while leaving little evidence of the discriminatory basis of refusal.

In their Analysis of Impediments to Fair Housing plan, the Massachusetts Department of Housing and Community Development (DHCD) differentiates discriminatory practices from market factors. The high cost of housing in Massachusetts is an example of market factors that disproportionately affect people in protected categories, many of whom have relatively low incomes. Actual discriminatory practices include the refusal to rent, sell, lend or insure housing for people in protected categories, as well as redlining: the practice of banks to refuse loans in low-income, largely minority neighborhoods.<sup>2</sup>

## Quantifying Housing Discrimination in Massachusetts

There are few agencies in Massachusetts that address housing discrimination complaints and collect this type of data. Primary sources of information are the federal government's Department of Housing and Urban Development (HUD) and its Fair Housing Assistance Project (FHAP), as well as the Massachusetts Commission Against Discrimination (MCAD) and the housing courts. There are also non-profit organizations, such as the Housing Discrimination Project, Inc. (HDP) in Western Massachusetts.

HUD/FHAP data consist of housing discrimination complaints reported from 1990 through the first quarter of 1998 (2,171 complaints). They include only federally protected populations. Reports name the protected category of each complainant and the type of discrimination alleged. The predominant bases for complaints between 1990 and 1998 were race and color (see Figure 2).

## II. Discrimination in Rental Housing

The 1990 census reported that members of racial and ethnic minorities represented more than 19 percent of all renters in the state. Two-thirds of the commonwealth's racial/ethnic minority residents are exclusively dependent on the residential rental market for housing.

Data on the rental market reveal a significant amount of discrimination. HUD/FHAP data for 1997 reported 150 allegations of rental discrimination in Massachusetts for that year alone, with 1,688 complaints since 1990. Of these, the vast majority were for discrimination in the terms, conditions, or privileges in renting a home (860) or discriminatory refusal to rent (787). These make up more than 75 percent of all housing discrimination complaints filed with HUD/FHAP since 1990. The majority were filed by people who felt discriminated against because of their race and/or color, with familial and handicap status not far behind. (Numbers do not equal numbers of complaints filed, due to multiple categories being listed.)

Data from the Housing Discrimination Project, Inc., in Western Massachusetts (1992 to 1997) paints a similar picture, but also includes information on state-protected groups. The state-only categories (source of income, sexual orientation, age and marital status) account for a large number of the complaints handled by the organization.

Of approximately 1,375 complaints filed, 409 were based on categories of people protected by state but not federal laws. The majority of these complaints (350) were

based on source of income, with 188 of those being filed by people who felt they were refused housing because of their dependence on housing subsidies, a factor that translates into a form of discrimination against families with children.

When including both federal and state protected categories (Figure 3), the HDP data show that the highest reported single basis for discrimination was national origin, with familial status being second. HDP complaints derive primarily from Hampden-Hampshire counties in Western Massachusetts, where HDP's primary office is located, while HUD complaints originate primarily in the eastern part of the state; their office is in Boston. Much of the commonwealth is unrepresented.

### III. Discrimination in Housing Sales

Prospective homeowners requiring a mortgage and insurance may face additional discriminatory practices. In a study of 1989 Home Mortgage Disclosure Act (HMDA) data, the Federal Reserve Bank of Boston found that Latino and Black mortgage applicants in Boston are considerably more likely to be denied loans than White applicants who are similarly situated in terms of economic, employment and neighborhood characteristics (see Figure 4).<sup>3</sup>

They argue that while few mortgage applicants have totally "clean" applications, the disparity in success rates for obtaining a loan is accounted for by the behaviors of individual loan officers who have significant discretion in deciding how much weight to accord any imperfection. Not only are low-income White applicants less likely to be turned down than high-income minorities, but "for the same imperfections, Whites seem to enjoy a general presumption of creditworthiness that Black and Hispanic applicants do not, and lenders seem to be more willing to overlook flaws for White applicants than for minority applicants."<sup>4</sup>

As HMDA only requires banks to keep records on people who actually submit mortgage applications, the problem of disparate treatment discrimination is potentially greater than is represented by the data, because applicants might be turned down or discouraged in the pre-application process.

This report analyzes the degree to which HMDA data suggest that discrimination has lessened or increased between 1992 and 1996. Although not explicitly measuring discrimination, the data on mortgage transactions required by HMDA and reported by the Federal Financial Institutions Examination Council (FFIEC), can help illuminate complex issues and trends in the home sales market.

In Massachusetts, the ownership rate for racial/ethnic minority households is 26.8 percent, compared with a national average of approximately 39 percent. In 1997 the overall ownership rate in Massachusetts was 62.3 percent, compared with 65.7 percent nationally. The lower homeownership rate can be explained, in part, by the lower proportion of owner-occupied housing units in Massachusetts than in the nation (59

percent vs. 64 percent) and also by a lack of affordable owner-occupied housing in the state.

Data from NFHA reported 1,185 complaints of sales and/or lending discrimination nationwide in 1997. This accounts for almost 9 percent of all reported housing discrimination complaints nationwide. In Massachusetts, HUD/FHAP registered only seven complaints of this type during that year. A total of 120 complaints of explicit home sales or lending discrimination in Massachusetts have been reported to NFHA, HUD, and the Department of Justice since 1990, making up 0.5 percent of all complaints reported to those agencies in that time period. The majority of those complaints were for discriminatory financing (46) and discriminatory refusal to sell (30).

It is notable that HMDA-reported mortgage originations (applications that were approved and resulted in a loan) for ethnic/race minority applicants increased between 1992 and 1996 by more than half, rising from 7,113 to 11,197. Overall originations increased only 1.92 percent, from 160,287 to 163,369. For the reference time period, mortgage originations for non-Latino White applicants actually decreased by 4.57 percent. Although there has been a real increase in the number of mortgages granted to race and ethnic minority applicants, these make up only 8 percent of the mortgage market, while accounting for more than 12 percent of the population. Thus, according to HMDA data for the period analyzed, the number of mortgages granted to ethnic/race minority applicants increased but did not reach equity with non-race/ethnic minority applicants.

Loan denial rates have typically been the key indicator of inequity in the residential finance system. In 1992, 5 percent (10,228) of all mortgage applications came from racial- and ethnic-minority applicants. By 1996 this had grown to 8 percent (17,954). As with the five-year trend in applications and originations, the rate for minority applications has shown some improvement. In 1992, when the overall denial rate was 12 percent of all applications received, the denial rate for applications from race/ethnic minority borrowers was 20 percent. In 1996 this rate was reported as 18 percent, while the overall rate had increased to 13 percent. According to 1996 data, the denial rate for Latino and African-American applicants was twice as high as that for White applicants. Even when these data are standardized by income category, the denial rate disparity is evident. For example, the denial rate for African American and Latino applicants in the upper income category, those with incomes in excess of 120 percent of the MSA median, was over two times the rate for White applicants in the same income group (see Figure 5).

#### IV. In Conclusion

Even if there were sufficient affordable housing for all the residents of Massachusetts, if home seekers are unable to rent or purchase that housing for reasons unrelated to their ability to pay, their credit-worthiness or character references, the availability of affordable units is irrelevant.

Local organizations disseminate information on the Fair Housing Act to potential homeseekers, as well as landlords, property managers and lenders. In the absence of such organizations, neither information or guidance may be readily available.

Though state and federal regulations forbid it, individuals continue to deny housing to legally qualified applicants only because of personal prejudice.

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### **The Economic Impact of Housing**

Zenia Kotval and John Mullin

Home building generates substantial local economic activity, including income, jobs, and revenue for state and local governments. These far exceed the school costs-to-property-tax ratios. Furthermore, balanced growth, the availability of homes that match the character of the jobs, plays a significant role in attracting sustainable economic development.

For the purposes of this study, these factors were evaluated by means of a quantitative assessment of data from a Local Impact of Homebuilding model, as well as a qualitative assessment of literature and policy analyses. The conclusions reveal the considerable effect of housing on a local economy.

The economic impact of housing involves a multitude of factors, from the monetary effects of the construction process to the impact of personal incomes on the local economy. In addition, it takes into consideration the significance of housing cost and availability in business location decisions.

#### I. Measuring the Economic Impacts of the Housing Industry

Too often, the impacts of new homes in a community are assessed in simple terms of school costs and property tax revenues. Given that average annual school costs range from \$6,000 to \$8,000 per student, and property tax revenues, from an average home in Massachusetts, range between \$1,600 and \$2,500 per year, it is little wonder that new home construction is perceived as costing communities money. The purpose of this assessment is to show that the housing industry has several other direct and indirect impacts on a local economy. In order to estimate these, the National Association of Home Builders ran an econometric model to assess the actual local impact of homebuilding activity. What follows is an explanation of the model and a summary of the results.

### The "Local Impact of Homebuilding" Model

Home building generates substantial local economic activity, including income, jobs, and revenue for state and local governments. The Local Impact of Homebuilding model from the National Association of Home Builders captures the effect of the construction activity itself, the impact that occurs when construction incomes are spent, and the impact of a home's new occupants paying taxes and spending their incomes. All three phases of the local impact model are based on input-output tables produced by the Bureau of Economic Analysis (BEA) in the U.S. Department of Commerce.

### The Local Economy

A local economy is an area within which people live, work, shop, and seek entertainment, regardless of political boundaries. The model produced for this study uses 62 industries that represent goods and services generally produced and purchased locally. These are based on the detailed six-digit standard industry classification (SIC) codes used by the BEA. Commodities in the SIC system are similar to the industrial classifications, except for construction, which has many commodities. Therefore, the local economy subset consists of 62 industries (including the construction industry) and 90 commodities (61+29, as the construction industry has 29 commodities).

### Input Requirements

The basic model produces results for an average local economy in the United States, but it can be customized for a specific area. As localities differ in complex and important ways, especially when it comes to taxes and fees, inputs for specific areas are required. For this study, basic input requirements fall into two categories: general market conditions and conditions specific to single family home construction.

#### General market conditions:

Local area where the construction takes place (We used three prototype areas: urban, suburban and rural communities in Massachusetts. See Figure 1.)

Proportion of total property taxes collected from residences, businesses, and agricultural property

Rate of local personal and/or business income tax

Conditions specific to single-family home construction:

Number of single-family homes to be analyzed

Average market price of a home

Average permit, impact, and other fees (including property transfer tax) paid to local governments per single-family home

Average property tax per dollar of market value for the new single-family homes (Total property tax on an average unit is acceptable as well.)

#### Data Limitations

As this study aims to assess the impact of housing on a statewide basis, there are limitations to the accuracy of local input data. Each community in Massachusetts has its own tax rate for residential development and calculates permit and other fees differently. The state shows wide variations in terms of land and housing costs. As such, one average figure for the entire state would be rather meaningless. Our study explored three iterations of the Local Impact of Homebuilding model to assess the statewide impact of 100 single family homes in a typical urban community, a typical suburban community, and a typical rural community.

#### Data Inputs

In order to provide data on prototypical urban, suburban and rural communities, we chose five communities in each of the three sectors, compiled actual data on each of these communities, and averaged the data (excluding outliers) for each sector. We chose the communities based on location, development potential, and socioeconomic factors.

The average value of land is estimated by buildable parcel, not by cost per acre. Zoning regulations allow higher densities in urban areas (two to three homes per acre) than in suburban areas (one to two homes per acre) and rural areas (often two acres per home). NAHB converted these to costs for "raw" land: land without infrastructure, clearing, or grading. Estimates were used for raw land value, as such land is difficult to find in urban or suburban communities. Raw land values for single-family homes in each type of area were estimated by NAHB's Housing Policy Department from data in their Builder Cost Survey (November 1995). Raw land costs in Massachusetts were estimated from the U.S. ratio of raw land to developable parcels, less fees. The same ratios were then applied to the buildable parcel values (less fees) in each category. (See Figure 2).

## II. Evaluating Economic Impacts



Estimates of the statewide economic impacts of building 100 single family homes in urban, suburban, and rural Massachusetts locations are presented below. The inputs for the NAHB model were computed separately for each sector. The model also shows the effect on income and employment in 16 industries and the (non-federal) government sector, as well as detailed information about taxes and other types of state and local government revenue.

#### Homes Built in Urban Areas

The estimated one-year statewide impacts of building 100 single-family homes in urban locations within Massachusetts include over \$8.2 million in income for Massachusetts residents, \$993,000 in revenue for state and local governments, and 159 jobs generated in the state.

These are statewide impacts, representing income and jobs for residents of Massachusetts, and taxes (along with other sources of government revenue, such as permit fees) for the state government and all local jurisdictions that lie within the borders of Massachusetts. They are also one-year impacts that include both direct and indirect effects of the construction activity itself, and the impact of Massachusetts residents who earn money from the construction activity and spend at least a portion of their earnings within the state.

The additional, recurring impacts of building 100 single-family homes in urban locations within Massachusetts include over \$2.7 million in income for Massachusetts residents, \$969,000 in revenue for state and local governments, and 66 jobs in the state.

These are ongoing, annual statewide impacts that result from the new homes becoming occupied, and the occupants contributing to the Massachusetts economy by paying taxes and spending money in the state year after year.

#### Homes Built in Suburban Areas

The estimated one-year statewide impacts of building 100 single-family homes in suburban locations within Massachusetts include approximately \$11.9 million in income for Massachusetts residents, over \$1.4 million in revenue for state and local governments, and 230 jobs generated in the state.

The ongoing, annual statewide impacts of building 100 single-family homes in suburban locations within Massachusetts include more than \$3.3 million in income for Massachusetts residents, nearly \$1.2 million in revenue for state and local governments, and 80 jobs in the state.

#### Homes Built in Rural Areas

The estimated one-year statewide impacts of building 100 single-family homes in rural locations within Massachusetts include over \$9.2 million in income for Massachusetts

residents, just under \$1.1 million in revenue for state and local governments, and 217 jobs generated in the state.

The ongoing, annual, statewide impacts of building 100 single-family homes in rural locations within Massachusetts include more than \$2.7 million in income for Massachusetts residents, \$939,000 in revenue for state and local governments, and 79 jobs in the state.

### III. The Significance of Available Housing as a Factor in Business Location Decisions

The significance of available housing can be studied in a number of ways. This study looks at the impacts in two related areas. The first considers the policy implications of the jobs-to-housing balance within any given region. Many urbanized regions across the country suffer from a geographic mismatch between the location of jobs and the availability of housing. There is little definitive literature on the remedies or even the need to seek solutions to this phenomenon. The second considers whether housing availability (or lack thereof) will have a significant impact on a business decision to locate in a community.

#### The Jobs-to-Housing Balance

The jobs-to-housing balance in a community is often expressed in the form of a ratio, which is the number of employees to the number of housing units. Perhaps a better measure of balance, however, is the match between the earnings of local workers and the cost of local housing. In other words: Do local jobs support the local housing market?

There are tangible benefits from achieving a balance. An obvious example is the effect on transportation: reduced traffic congestion, an increase in walking or biking, less need for parking, plus energy conservation and decreased emissions. Equally important are the implications for social equity. Providing affordable housing closer to job centers would expand residential and job opportunities for low-income people.

The problems associated with a jobs-to-housing imbalance, such as traffic congestion and pollution, transcend community boundaries and need to be addressed on an inter-jurisdictional basis. The jobs-to-housing balance is about increasing choices and opportunities for both employers and employees. Employers and businesses are starting to take a closer look at this issue when making location and expansion choices.

#### Housing as a Factor in Business Location Decisions

Traditional factors, such as location, costs and access to qualified labor, continue to play an important role in business relocation. Increasingly, though, quality of life issues have emerged as a critical element in the site selection process. These issues include, among other things, good school systems, available affordable housing, opportunities for recreation, and low crime rates.

Employers are starting to be concerned with where their employees want to live and work. As such, site selection is increasingly revolving around the workforce and the optimal locations that will attract and retain the best and brightest workers. Technological advances have made it easier to determine the best locations for businesses. Private firms that specialize in relocation strategies, such as Fluor Daniel Consulting and PPH Fantus Consulting, often perform a quality-of-life appraisal as a part of the comprehensive analysis of any geographic site under consideration.

In 1994, when Area Development Magazine (a site-selection trade publication) asked its readers to rate the importance of housing availability in the site selection process, 75 percent said it was either "important" or "very important." Slightly more readers - 76.8 percent - said that an area's public school ratings were of top concern when they considered moving employees, particularly key management personnel, to a new location.

PHH Fantus Consulting lists the most critical site location needs of a typical business project as:

Large management/technical pool

Communications opportunities

Clerical talent pool at competitive costs

Commercial air services

Good transportation access

Office parks/space

High quality of life

Good housing mix (in terms of availability, affordability and type of housing)

Thus the availability and affordability of housing do impact the economic growth potential for a community. While rarely driving the site selection process, the quality-of-life factors offering the best "fit" to a relocating company often gain a competitive advantage for a particular community.

#### IV. In Conclusion

The commonwealth's housing industry provides jobs and incomes for residents and a tax base for communities. It brings in substantial direct revenue, aids balanced growth, and plays a significant role in attracting sustainable economic development to the state.

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### **Summary: Where Do We Go from Here?**

This first report on housing in Massachusetts was a two-year effort by our research team to explore important issues and challenges facing this state at the close of the Twentieth Century. Both CHAPA and the University of Massachusetts envision this as the beginning of a series of housing studies focusing on important issues in the commonwealth. Among issues and questions that might be explored:

#### Housing Supply, Demand, Economic Impact, and Credit Markets

What effect will the increase in home ownership have on the continued supply, production, and affordability of multi-family rental housing in Massachusetts?

What percentage of new homeowners is in the low-income population?

How have job growth and job loss matched the growth and loss of the housing stock in given communities?

Who are owners of rental housing today, and what are the characteristics of these owners relative to the units they own?

How does production of multi-family housing by community compare to demolitions, conversions to owner-occupied homes, and abandonment?

What are the priorities and issues of housing as a factor in business location decisions?

What is the relationship among the use of housing equity, personal debt, spending, and investment?

How does the increasing prominence of out-of-state lenders of housing capital impact the Massachusetts economy?

#### Affordability, Special Needs, and Discrimination

How do changes in public policy and the state's economy impact low-income families' ability to obtain and maintain their hold on housing?

How stable is the housing situation of low-income persons not receiving subsidies?

How do changes in public policy and the state's economy impact the ability of persons with special needs with regard to obtaining and maintaining their hold on housing?

What percentage of the elderly population requires housing with supportive services?

How do the current and projected stock of subsidized housing compare to the current and projected population in need?

What are the impacts of changes in the state's economy on homeowners with the most serious affordability problems, such as female-headed households; homeowners of color; and low-income, first-time buyers?

In which communities have increases in average rents and home prices most dramatically outpaced increases in income?

What are the outcomes of housing discrimination complaints reported to authorities?

What is the breakdown of homeownership by race, age, sex, and ethnicity?

Every good study raises important issues as it answers others. Over the next few years, welfare reform, the state housing bond bill, the federal housing bill, and a possible slowdown of the state's economy will have significant impacts on housing in Massachusetts. Future studies will examine these impacts.

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Boston Housing Court

City of Boston

Department of Neighborhood Development

Emergency Shelter Commission

Commonwealth of Massachusetts

Commission Against Discrimination

Department of Housing and Community Development

Department of Revenue

Department of Veterans' Services

Executive Office of Elder Affairs

Executive Office of Health and Human Services

Department of Mental Health

Department of Mental Retardation

Department of Public Health

Department of Social Services

Department of Transitional Assistance  
Department of Youth Services  
Community Economic Development Assistance Corporation  
Crime and Justice Foundation  
Federal Government  
    Department of Housing and Urban Development  
        Boston Office  
        Washington Office  
Greater Boston Real Estate Board  
Harvard University, Joint Center for Housing Studies  
Homes for Families  
Housing Discrimination Project  
Massachusetts Affordable Housing Alliance  
Massachusetts Coalition for the Homeless  
Massachusetts Home Builder's Association  
Massachusetts Housing Finance Agency  
Massachusetts Institute for Social and Economic Research (MISER)  
Mortgage Banker's Association  
National Association of Home Builders  
National Association of Realtors  
National Consumer Law Center  
National Fair Housing Alliance

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